

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

Mercantile Stores Company, Inc.
Annual Report
Twelve Months Ended
January 31st
1957

Stores Owned by
MERCANTILE STORES COMPANY, INC.

Principal Stores

J. Bacon & Sons	-	-	-	-	-	-	-	Louisville, Ky.
The Castner-Knott Dry Goods Co.	-	-	-	-	-	-	-	Nashville, Tenn.
The Crews-Beggs Dry Goods Co.	-	-	-	-	-	-	-	Pueblo, Colo.
Duluth Glass Block Store Company	-	-	-	-	-	-	-	Duluth, Minn.
C. J. Gayfer & Company, Incorporated	-	-	-	-	-	-	-	Mobile, Ala.
Hennessy Company	-	-	-	-	-	-	-	Butte, Mont.
The Jones Store Co.	-	-	-	-	-	-	-	Kansas City, Mo.
The Joslin Dry Goods Company	-	-	-	-	-	-	-	Denver, Colo.
The Lazarus Store, Inc.	-	-	-	-	-	-	-	Wilkes-Barre, Pa.
The O. J. de Lendrecie Co.	-	-	-	-	-	-	-	Fargo, N. Dak.
The Lion Dry Goods Company	-	-	-	-	-	-	-	Toledo, Ohio
The MacDougall & Southwick Company	-	-	-	-	-	-	-	Seattle, Wash.
The McAlpin Company	-	-	-	-	-	-	-	Cincinnati, Ohio
Montgomery Fair Co.	-	-	-	-	-	-	-	Montgomery, Ala.
The People's Store Company	-	-	-	-	-	-	-	Tacoma, Wash.
Root Dry Goods Company	-	-	-	-	-	-	-	Terre Haute, Ind.
Thomas C. Watkins, Limited	-	-	-	-	-	-	-	Hamilton, Ont., Can.
J. B. White & Co.	-	-	-	-	-	-	-	Augusta, Ga.
J. B. White & Co.	-	-	-	-	-	-	-	Columbia, S. C.

Other Stores

39 Junior Department Stores

8 Appliance Stores



Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)

(A wholly owned subsidiary company)

128 W. 31st Street, New York, N. Y.

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
F. K. BRADLEY
MORGAN A. CASEY
ABBOTT D. CHURBUCK
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
GERRISH H. MILLIKEN, JR.
MINOT K. MILLIKEN
ROGER MILLIKEN
GEORGE S. MOORE

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*
HAROLD W. JOCKERS, *President*
F. K. BRADLEY, *Vice-President*
ABBOTT D. CHURBUCK, *Vice-President*
MORGAN A. CASEY, *Vice-President & Treasurer*
R. NELSON SHAW, *Vice-President*
CHARLES E. STALLINGS, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
ASHTON HAWKINS, *Secretary*
R. S. KIZER, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
100 Broadway
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
22 William Street
New York

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware
April 12, 1957

To the Stockholders of Mercantile Stores Company, Inc.:

This is our 38th annual report to stockholders which covers the fiscal year ended January 31, 1957. In the following pages are the financial statements for the year, together with the report of Arthur Andersen & Co., independent public accountants.

The net profit for the year of \$4,026,964 was slightly higher than the preceding year's profit of \$3,916,717. Earnings per share of common stock were \$2.76 compared with \$2.70 for the previous year. Sales for the year aggregated \$148,773,457, which represented an increase of 7.2% over the year before.

PROFIT

Profit before taxes amounted to \$8,086,964, an increase of \$50,247 over the preceding year. The net profit of \$4,026,964 was \$110,247 greater than the year before.

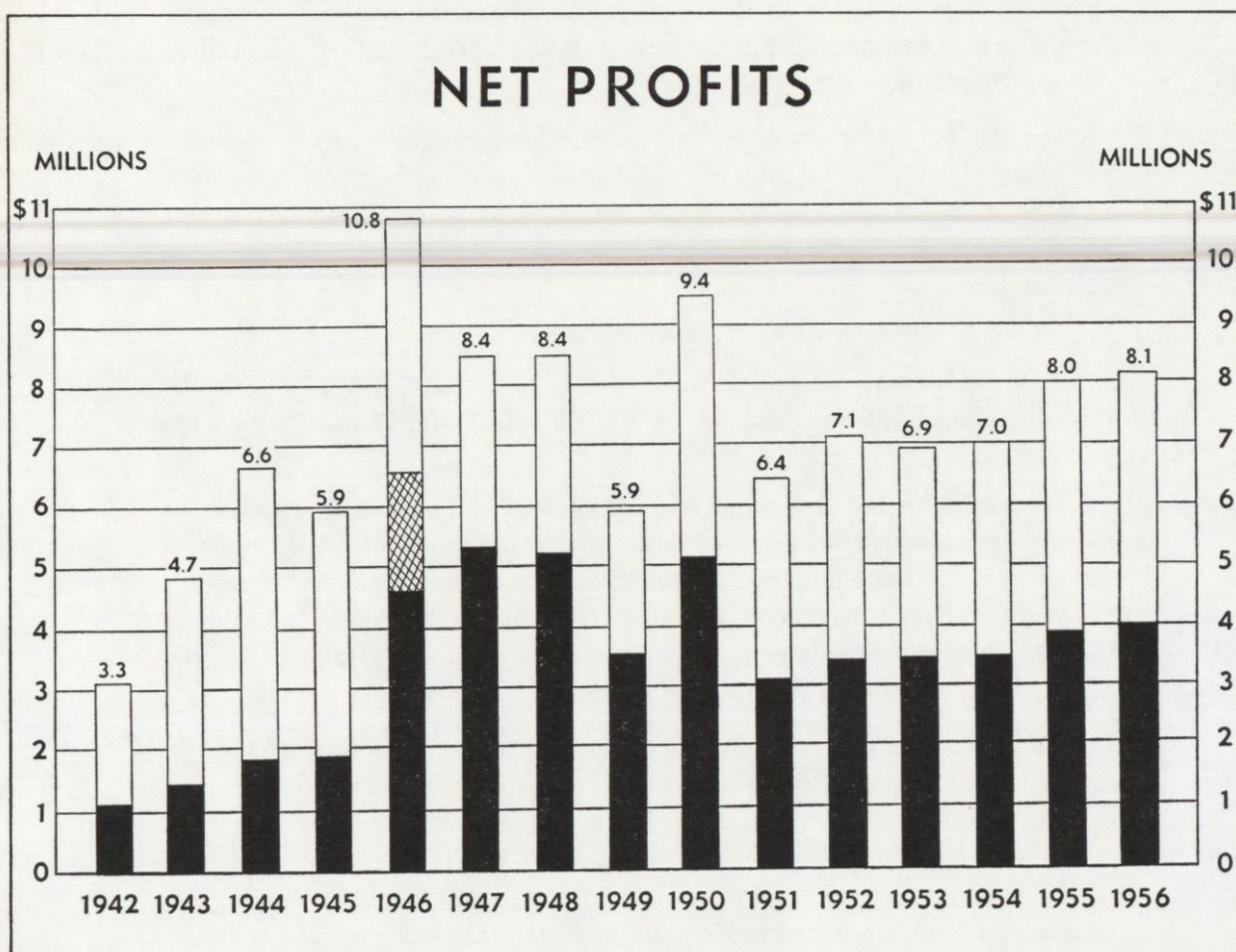
The profit for the year was adversely affected by pre-opening expenses of the new stores which were opened during the year (details of these new units are given in later paragraphs). Of the total sales increase in the Company for the year of about \$10,000,000, approximately \$6,600,000 represented sales in the new units opened this year, and only a small profit was returned from the new units because of the pre-opening and related expenses.

Mark-downs and expenses for the year were higher than a year ago. Mark-downs increased principally because of unseasonably cool weather in the early summer and unusually warm weather in the late fall. Merchandise bought for selling during those periods of the year did not sell as well as planned, and higher mark-downs were required to clear out the stocks. Expenses were higher. Increasing payroll costs were the largest factor. The Company actually operated with fewer people (in the stores operating both years) but higher rates pushed the dollar cost up. Pre-opening expenses in new stores and accelerated depreciation were also factors in the increased expense.

Regarding accelerated depreciation, the Company continued to step up its depreciation by the use of accelerated depreciation. For the year, the extra depreciation above normal or "straight line" depreciation amounted to about \$246,000 (a year ago the figure was \$187,000).

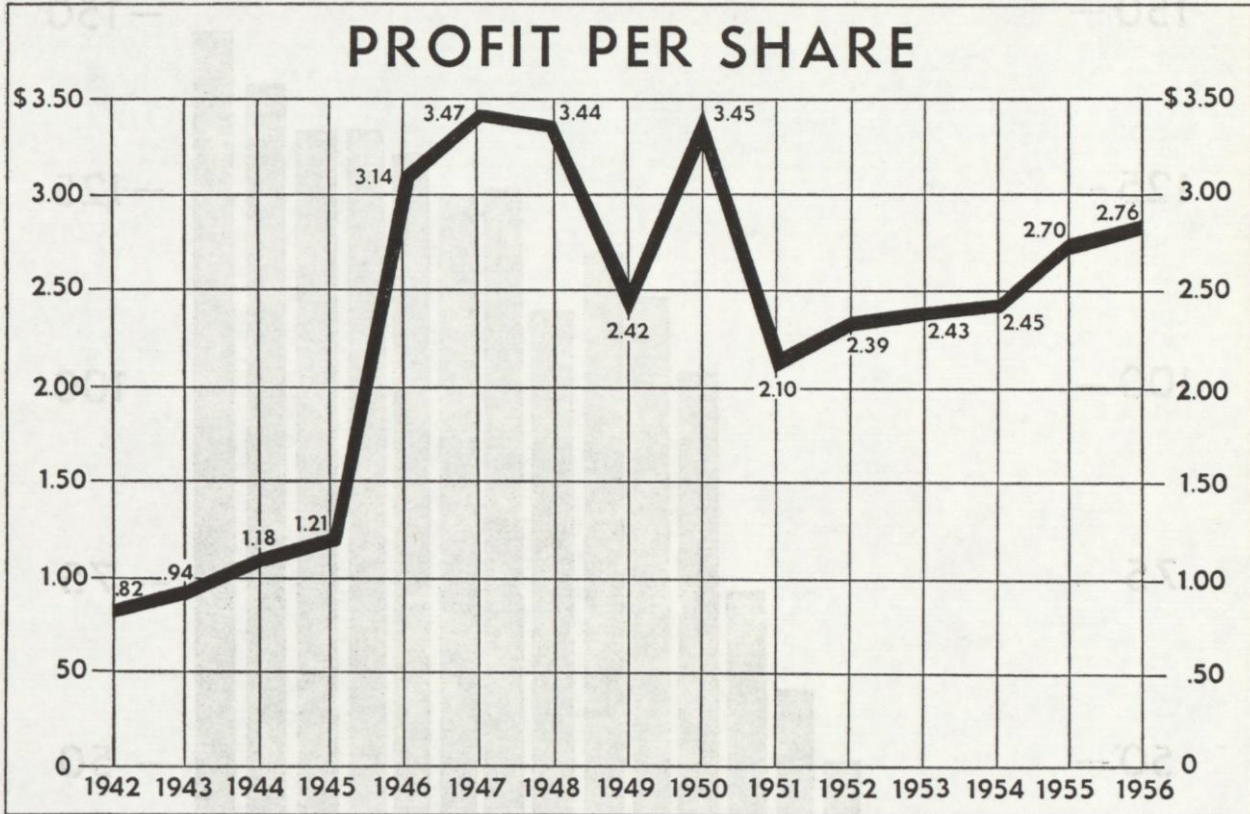
This extra depreciation was equivalent to about 8 cents in per-share earnings. The effect of this extra depreciation on pre-tax profit percentage to sales is also appreciable. The pre-tax profit percentage to sales was 5.4% for the year. If accelerated depreciation had not been charged, that percentage would have been about 5.6%.

The profit before income taxes and the final net profit for each of the last fifteen years is shown in the chart below.



Profit Before Income Taxes
 Income Taxes
 Contingency Provision
 Net Profit

The net profit per share of common stock amounted to \$2.76 for the year. The net profit per share of common stock for each of the last fifteen years is shown in the chart below. The per-share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945.



SALES

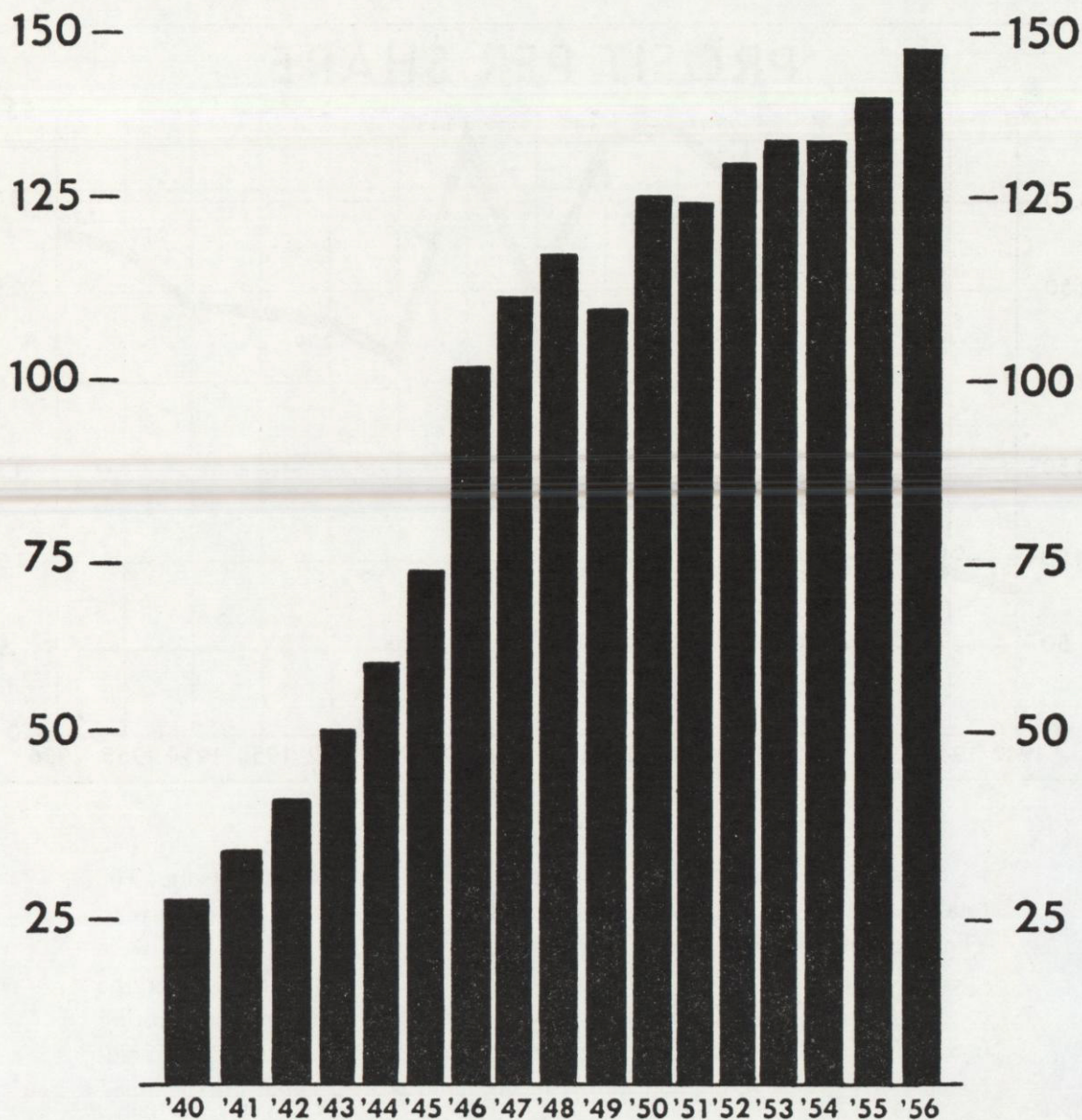
Sales for the year were the greatest in the history of the Company. The total of \$148,773,457 represented an increase of 7.2% over the preceding year. The sales increase amounted to approximately \$10,000,000. New stores were opened during the year (details are given later on in this report under the comments on expansion). Sales for the comparable stores in operation during both years were 4% greater than the year before. The sales increase was maintained fairly evenly throughout the year, although March and April combined were disappointing and July showed only a small increase. The other months showed good increases.

The sales for the past seventeen years are shown in comparative form in the chart on the following page.

SALES DURING PAST 17 YEARS

MILLIONS OF \$

MILLIONS OF \$



DIVIDENDS

The Company increased its dividend payments during the year — the second consecutive year in which there has been an increase in dividends. The dividends paid during the year amounted to \$1.65 per share as follows:

	<u>Date Paid 1956</u>	<u>Amount Per Share</u>
Quarterly	March 15	\$.35
Quarterly	June 15	.35
Quarterly	September 15	.35
Quarterly	December 15	.35
Year-end Extra	December 29	.25
		\$1.65

The five dividends paid in 1956 amounted to \$2,402,442 which was \$153,700 more than the \$2,248,742 dividends paid during the preceding year.

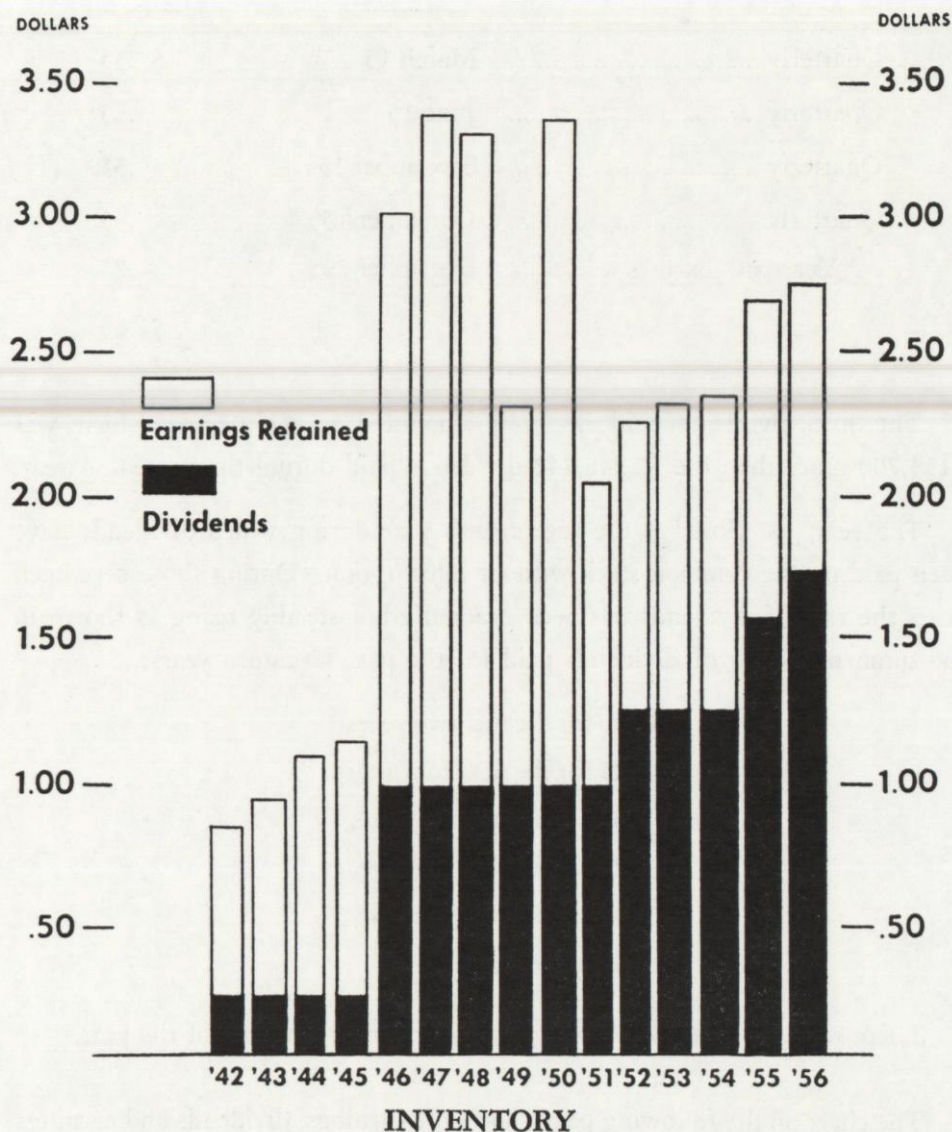
The year just closed is the seventeenth year during which dividends have been paid on the common stock without interruption. During those seventeen years the rate of dividends has been gradually but steadily rising as shown in the summary below of dividends paid for the past seventeen years:

\$.20 for the first two years
.25 for the next four years
1.00 for the next six years
1.25 for the next three years
1.55 for the next year
1.65 for the latest year

There were 4,152 stockholders in our Company at the end of the year.

The chart on the following page shows the earnings, dividends and earnings retained per share of common stock for the last fifteen years.

EARNINGS, DIVIDENDS, AND EARNINGS RETAINED PER SHARE OF COMMON STOCK



The total merchandise inventories of the Company at the end of the year amounted to \$24,794,615 which was \$678,751 greater than a year ago. Inven-

tories in the new stores opened this year caused the increase. Excluding the new stores, the inventory was lower than a year ago. Inventories in comparable stores (operating both years) were lower than a year ago by about \$1,100,000, a decrease of approximately 5%.

EXPANSION

The principal expansion of the Company during recent years has been of two types — (1) the acquiring of major stores which have been well established for years and are generally recognized as having top acceptance by the public in the community, and (2) the opening of junior department stores in suburban areas of the cities where we already have long established downtown department stores.

During the year just closed, the Company:

Bought one well established downtown store.

Opened four new junior stores.

Relocated one suburban store in new quarters.

These new units will add between eleven and twelve million dollars to the annual volume of the Company, judging from their current rate of sales.

The new downtown store is The Crews-Beggs Dry Goods Co. in Pueblo, Colorado. It is the leading department store in that city and started its business in 1888. We acquired the store in June. We are leasing the real estate from the former owners of the store. The clearing out of old merchandise and other operational changes have been completed, the volume of the store is beginning to increase, and we expect good results from the store in the years to come.

The four new junior stores were as follows:

Opened in August in the Shively section of Louisville, Kentucky:

A new shopping center, built by the Company.

We acquired the land (about 12 acres) and built the buildings for our store and for the other shops in the center, which we lease to them as tenants.

Our store operates under the name Bacon's and is identified with our downtown Bacon's store which has been in business for over 100 years.

The sales so far have been up to our expectations.

Opened in September in the Kenwood section of Cincinnati, Ohio:

A new shopping center, in which we occupy our store under a lease.

Our store operates under the McAlpin name, identified with our McAlpin store in downtown Cincinnati, which has been operating since 1852.

The sales and profits of the store have been extraordinarily good and considerably better than we expected in the first year of operation.

Opened in September in Pensacola, Florida:

A new shopping center, in which we bought part of the land and built the building for our store.

Our store operates under the name Gayfer's and is identified with our Gayfer's store in downtown Mobile, Alabama (Pensacola is some 80 miles from Mobile). The Gayfer store in Mobile has top acceptance in the area and has been operating since 1879.

Sales in the new store thus far have been up to our expectations.

Opened in November in Boulder, Colorado:

Our store is in downtown Boulder, in a new building which we occupy under lease.

Our store operates under the Joslin name and is identified with our Joslin store in downtown Denver (Boulder is about 25 miles from Denver). Joslin's in Denver started in business in 1873.

The sales in Boulder have been satisfactory.

In May, the suburban Bacon store in Jeffersonville, near Louisville, Kentucky, was relocated in a new shopping center. We occupy the new store under a lease. The new store is more than double the size of the former store. Sales in the new location have been up to our expectations.

Regarding expansion for the calendar year 1957, two new suburban stores are scheduled to be opened this year. In April we expect to open our store in the Eastbrook section of Montgomery, Alabama, and later in the year we plan to open a new store in the Westgate Secor section of Toledo, Ohio. Both of these stores will be in shopping centers. In February 1957, we relocated the Lakewood store in suburban Denver, Colorado, to new quarters. The new store is more than double the size of the former store. Our Peoples store in downtown Tacoma, Washington, is expanding its quarters. We have leased space in an adjoining building and are in process of installing fixtures, escalators, etc. The new space will add about 40,000 square feet to our store. We expect the work will be finished this spring and the expanded store to be in full operation by about the middle of the year.

The above described planned expansion for calendar 1957 should add between \$7,000,000 and \$8,000,000 to the annual volume of the Company.

We closed two small junior stores during the year (Chehalis, Washington and Orangeburg, South Carolina). The annual volume of these two stores

combined was about \$400,000. These two small stores have been operating over ten years and both have produced modest profits. The leases expired and the management decided to close the stores.

At January 31, 1957, your Company was operating 19 large department stores, 39 junior department stores and 8 smaller stores selling household appliances.

ADDITIONS AND IMPROVEMENTS TO PHYSICAL PROPERTIES

The Company invested a total of \$9,877,000 during the year for additions and improvements to our stores. This represents the largest expansion in any one year in the history of our Company. The expenditures are summarized as follows:

For new stores	\$5,462,000
For expanding existing stores	1,579,000
For modernizing existing properties	2,836,000
	\$9,877,000

The total of \$5,462,000 expended for new stores includes amounts spent for stores opened during the year, and also for stores to be opened in the future.

The expenditures of \$1,579,000 for expanding the size of existing stores, represents amounts spent in three downtown stores, and three suburban stores.

The amount of \$2,836,000 for modernizing existing stores includes \$1,337,000 in the Jones store in Kansas City, Missouri, where we are modernizing the entire store (the Jones store project is planned for completion in 1958). The balance of the \$2,836,000 (namely \$1,499,000) was expended for air-conditioning in two major stores, new fixtures, and other improvements in various stores.

Depreciation charged to operations for the year amounted to \$1,972,987, compared with \$1,747,867 last year.

Apart from the amounts described above, \$483,232 was expended during the year (and charged to operations) for repairs and maintenance.

FINANCING OF EXPANSION

During the seven years ended January 31, 1956, the Company financed its expansion out of retained earnings. At the beginning of that seven year period the long term debt amounted to \$5,675,000 and at the end of those seven years,

long term debt was \$5,562,865. During those seven years the following amounts were expended for new stores and improvements:

<u>Year Ended</u>	<u>Capital Expenditures</u>
January 31, 1950	\$ 1,638,015
January 31, 1951	2,554,076
January 31, 1952	4,080,571
January 31, 1953	1,914,607
January 31, 1954	1,797,935
January 31, 1955	3,368,916
January 31, 1956	4,723,342
	\$20,077,462

During the year ended January 31, 1957, we invested \$9,876,679 in capital expenditures, and long term debt was increased to maintain adequate working capital. A three year credit agreement was arranged with three banks for a total loan of \$6,500,000. In January 1957, we took down \$5,000,000 of this loan, and in March 1957, we availed ourselves of the remaining \$1,500,000. Under this loan agreement, 20% is due on January 31, 1958, 20% on January 31, 1959 and 60% on January 31, 1960.

The Company continued its practice of placing mortgages on newly acquired real estate or major improvements. During the year mortgages were placed in the following amounts:

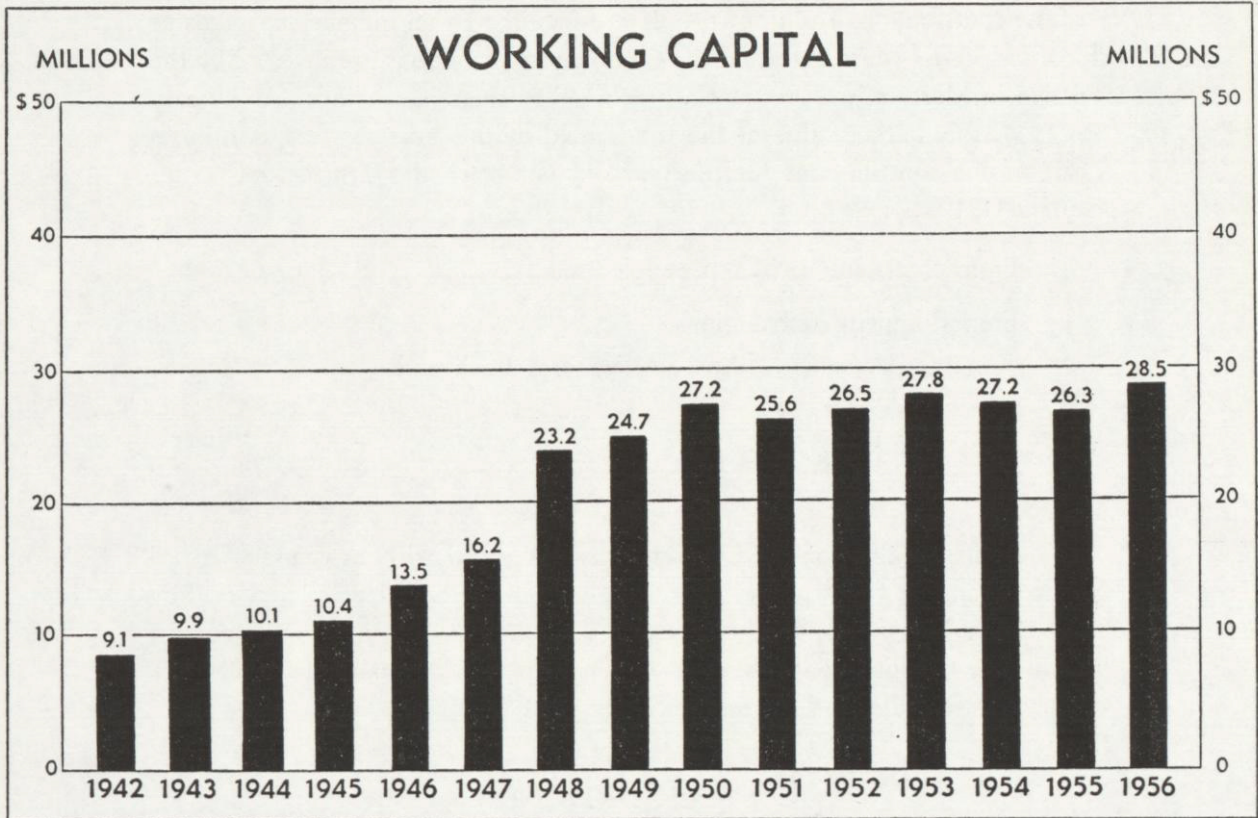
On property in Nashville, Tenn.	\$ 600,000
On property in Kansas City, Mo.	1,406,000
On property in Pensacola, Fla.	1,300,000
On property in Louisville, Ky.	1,500,000
On property in Duluth, Minn.	202,500
	\$5,008,500

The regular required payments were made during the year on all long term debt obligations (including \$250,000 against the loan from Metropolitan Life Insurance Company) and the net result was that the total long term debt of the Company was increased during the year from \$5,562,865 to \$13,892,909, an increase of \$8,330,044.

Regarding short term loans, the Company borrowed \$6,900,000 from banks during the early part of the year in connection with its seasonal cash requirements, and paid off all of these loans prior to January 31, 1957.

WORKING CAPITAL

The working capital at the end of the year amounted to \$28,483,333, which represented an increase of \$2,169,355 over a year ago. The chart below shows the amount of working capital for each of the last fifteen years.



PROFIT SHARING PLAN AND PENSION PLAN

The Savings and Profit Sharing Plan of the Company has been in operation for three years. At the end of the year there were 2,747 people in the Plan. A year ago the number was 2,514.

Summarized briefly, the Plan is one under which our people contribute up to 6% of their salary, and the Company makes a contribution into the Plan, geared to profits.

During the year, our people contributed a total of \$560,763 of their own money into the Plan. A year ago the comparable figure was \$485,881. The

Company contribution for the year amounted to \$204,577, compared with \$201,932 a year ago. Each participant's account was credited this year with approximately thirty-six cents from the Company for every dollar contributed by the individual. (A year ago the comparable figure was forty-one cents.)

The contributions from our people are invested by an independent Trustee in conservative investments, and the Company contributions are invested by the Trustee in Mercantile Stores stock, purchased in the open market. At January 31, 1957, the market value of the funds held by the Trustee were as follows (part of the contributions for the year did not reach the Trustee until after January 31, 1957):

From contributions by our people	\$1,386,962
From Company contributions —	
(21,918 shares of Mercantile Stores stock and	
cash of \$133)	512,466
Total	<u>\$1,899,428</u>

The Pension Plan of the Company was continued without change. It has been in operation for twelve years. There were 1,142 of our people covered by this Plan at January 31, 1957. A year ago the number of people covered was 1,044. The Company pays the cost of this Plan which amounted to \$256,371 compared with \$260,294 for the preceding year.

STOCK OPTIONS

In May, 1953, the stockholders ratified the granting of stock options to thirty-eight officers and key people, under which those individuals had the right to purchase a total of 27,500 shares of capital stock of the Company. These options expire December 16, 1957. The purchase price under the options is \$20.41 per share which is the price the Company paid for this stock when it purchased the 27,500 shares in the open market. The option price of \$20.41 was 97.48% of the market value of the stock on the day the options were granted, December 16, 1952.

During the period from May 1953 (when the options were ratified) to January 31, 1957, options were exercised for a total of 10,325 shares, and one option for 300 shares was cancelled in accordance with its terms.

The following summarizes what occurred during the year under review:

	<u>Shares</u>
At January 31, 1956, held in treasury against options not exercised	22,625
Options exercised during the year	5,750
At January 31, 1957, held in treasury against options not exercised	<u>16,875</u>
(Also held in treasury at January 31, 1957 were the 300 shares relative to the cancelled option.)	

CURRENT SALES

This report is being written near the end of March. Sales for the one month of February were about 4% ahead of last year (in spite of the fact that there was one less selling day in the month this year compared with a year ago). The latest available figures for March show the sales to be about 4% behind a year ago. It is expected that it will be difficult to show a good sales comparison for the month of March because of the fact that Easter is three weeks later this year than a year ago. A year ago Easter fell on April 1 and the month of March was helped by the pre-Easter selling. This year Easter falls on April 21 and most of the pre-Easter selling this year will occur in April. The April sales comparison with last year should show a substantial increase.

CAPITAL STRUCTURE

The common stockholders are the only stockholders in our Company. At the end of the year the common stockholders' investment amounted to \$44,385,246. The total capital structure (common stockholders' investment plus long-term debt) amounted to \$58,278,155 at the end of the year, and over 76% of this total was in the common stockholders' investment.

VARIOUS

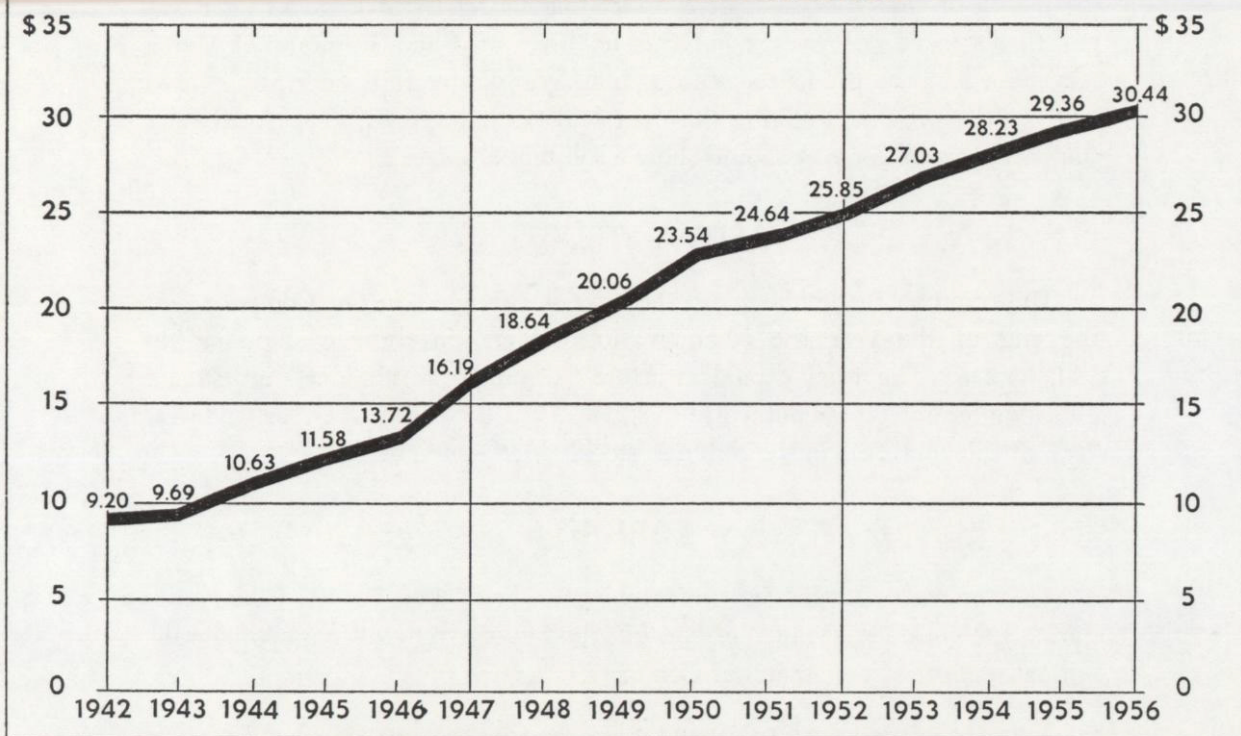
The Company employs in the neighborhood of 7,000 people. This varies during the peak seasons of the year, but the figure given will approximate the normal number of people in our Company.

The earnings retained for use in the business since February 1, 1935 (earned surplus) were increased during the year from \$30,030,241 to \$31,654,763.

The total amount of money owed the Company by its customers for merchandise sold on credit amounted to \$22,733,925 at January 31, 1957. The amount of these receivables was \$3,427,621 larger than a year ago. The increase in installment accounts was approximately \$2,165,000 and the increase in regular charge and lay-away accounts was about \$1,262,000. The Company continued to sell a large part of its customers' installment contracts to a bank under an arrangement which has been operating for many years. The reserve for doubtful accounts continues to be a generous one, in the opinion of the management, and the receivables are considered to be in satisfactory condition.

The book value per share of common stock was \$30.44 at January 31, 1957, computed on the 1,458,324 shares outstanding at the end of the year. The book value per share of common stock has been increasing steadily as shown by the chart below which gives the per-share value at the end of each year for the past fifteen years.

BOOK VALUE PER SHARE



Mr. Lindsay Bradford retired from our Board of Directors during the year, after serving as a Director for twenty-two years. His faithful service over the years has been greatly appreciated.

Mr. George S. Moore succeeded Mr. Bradford as a member of our Board of Directors. Following his graduation from Yale University in 1927, Mr. Moore entered the banking business. He became vice president of The First National City Bank of New York in 1939 and in 1952 became executive vice president of that bank, the position he now holds.

The financial statements and the report of our independent auditors are given on the succeeding pages. Following that is a summary of the highlights of our operations for the past nineteen years together with a ten year comparison of balance sheets.

The management extends its sincere thanks to our people for their loyal cooperation. We value highly our good relationships with the thousands of manufacturers and other vendors who supply us with good merchandise, and we want to extend our thanks to them.

Respectfully submitted,

F. G. KINGSLEY

Chairman of the Board

HAROLD W. JOCKERS

President

MERCANTILE STORES

(a Delaware Corporation)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

Current Assets:

Cash		\$ 7,048,251
Accounts receivable—		
Customers accounts—		
Regular retail terms.....	\$10,269,887	
Installment terms, including installments maturing after		
one year	784,398	
Equity in installment accounts sold (the uncollected balances		
of accounts sold amounted to \$11,679,640)	2,967,364	
Other accounts	587,424	
	<u>\$14,609,073</u>	
Less—Reserve for doubtful accounts.....	1,306,178	13,302,895
Merchandise inventories, priced at the lower of cost or market.....		24,794,615
Unexpired insurance, prepaid rent, etc.		990,185
TOTAL CURRENT ASSETS.....		<u>\$46,135,946</u>

Fixed Assets:

Land, at cost.....	\$ 5,544,186	
Buildings owned, buildings on leased ground and		
leaseholds, and building improvements, at cost.....	\$24,795,692	
Less—Reserve for depreciation.....	6,607,075	18,188,617
Store fixtures, etc., at cost.....	\$10,358,129	
Less—Reserve for depreciation.....	4,296,110	6,062,019
		<u>29,794,822</u>
		<u>\$75,930,768</u>

NOTE: Under the terms of the three-year agreement covering the \$4,000,000 bank loans shown above net profit after that date. The insurance company loan agreement also contains provisions relating

RES COMPANY, INC.

(corporation)

COMPANIES

SHEET — JANUARY 31, 1957

LIABILITIES

Current Liabilities:

Accounts payable	\$ 8,074,975
Accrued taxes (other than Federal income), compensation, rent, etc.	4,525,518
Reserve for Federal income taxes.....	3,442,809
Current maturities of long-term debt (including \$359,311 on mortgage notes payable).....	1,609,311
TOTAL CURRENT LIABILITIES.....	\$17,652,613

Long-Term Debt:

Notes payable—	
Insurance company, due \$250,000 annually.....	\$ 2,500,000
Banks, due \$1,000,000 January 31, 1959, and \$3,000,000 January 31, 1960.....	4,000,000
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages.....	<u>7,392,909</u> 13,892,909

Capital Stock and Surplus:

Common stock, par value \$3.66⅔ per share—	
Authorized and issued, 1,475,499 shares.....	\$ 5,410,163
Less—17,175 shares held in treasury, of which 16,875 are subject to options granted at \$20.41 per share.....	<u>62,975</u>
Outstanding 1,458,324 shares.....	\$ 5,347,188
Surplus prior to February 1, 1935.....	5,883,295
Surplus reserve for inventories and contingencies.....	1,500,000
Earnings retained for use in the business since February 1, 1935 (earned surplus) (see Note).....	<u>31,654,763</u> 44,385,246
	<u><u>\$75,930,768</u></u>

under long-term debt, payment of cash dividends after January 31, 1956, is restricted to 70% of the
to the payment of dividends but they are less restrictive.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1957

PROFIT AND LOSS

Net sales, including sales of leased departments.....		\$148,773,457
Cost of goods sold, selling, operating and administrative expenses, including depreciation of \$1,972,987.....		141,249,084
Operating profit		<u>\$ 7,524,373</u>
Other income (net):		
Carrying charges on installment accounts, and miscellaneous net income	\$1,397,567	
Less—Interest expense	834,976	562,591
Profit before provision for income taxes.....		<u>\$ 8,086,964</u>
Provision for income taxes:		
Federal taxes	\$3,735,000	
State and Canadian taxes.....	325,000	4,060,000
Net profit for the year.....		<u><u>\$ 4,026,964</u></u>

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1956.....	\$ 5,787,265
Excess of proceeds over par value of 5,750 shares of common stock sold during the year under options granted in 1952 at \$20.41 per share.....	96,030
Balance, January 31, 1957.....	<u><u>\$ 5,883,295</u></u>

EARNINGS RETAINED FOR USE IN THE BUSINESS SINCE FEBRUARY 1, 1935 (EARNED SURPLUS)

Balance, January 31, 1956.....	\$ 30,030,241
Net profit for the year.....	4,026,964
	<u>\$ 34,057,205</u>
Dividends declared on common stock—\$1.65 per share.....	2,402,442
Balance, January 31, 1957.....	<u><u>\$ 31,654,763</u></u>

ARTHUR ANDERSEN & CO.

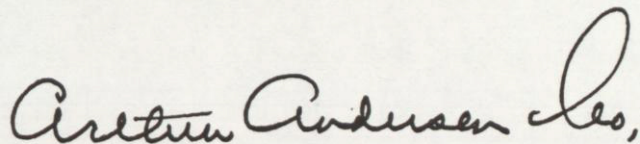
67 BROAD STREET
NEW YORK 4

April 1, 1957.

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1957, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1957, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading "Arthur Andersen & Co.", is positioned below the main body of text. The signature is written in dark ink and is centered horizontally.

MERCANTILE STORE AND SUBSIDIARY

NINETEEN YEAR COMPARISON OF SALES,

<u>Fiscal Year Ended January 31</u>	<u>Net Sales</u>	<u>Profit Before Income Taxes</u>	<u>Income Taxes</u>	<u>Net Profit</u>	<u>Net Profit Per Common Share (After 10 for 1 Splitup in 1945)</u>
1957	\$148,773,457	\$ 8,086,964	\$4,060,000	\$4,026,964	\$2.76
1956	138,785,704	8,036,717	4,120,000	3,916,717	2.70
1955	130,366,021	6,970,553	3,420,000	3,550,553	2.45
1954	130,882,985	6,933,491	3,410,000	3,523,491	2.43
1953	128,603,624	7,080,850	3,620,000	3,460,850	2.39
1952	124,699,947	6,442,260	3,322,000	3,120,260	2.10
1951	125,427,006	9,397,003	4,290,000	5,107,003	3.45
1950	112,607,776	5,932,129	2,325,000	3,607,129	2.42
1949	119,091,512	8,369,725	3,243,000	5,126,725	3.44
1948	113,012,702	8,444,538	3,286,000	5,158,538	3.47
1947	103,007,184	10,800,760	4,618,000	4,682,760**	3.14
1946	74,407,149	5,894,901	4,084,000	1,810,901	1.21
1945	59,668,304	6,633,941	4,854,000	1,779,941	1.18
1944	50,277,807	4,700,875	3,276,760	1,424,115	.94
1943	41,173,113	3,340,264	2,118,645	1,221,619	.82
1942	34,867,853	1,912,941	812,165	1,100,776	.73
1941	29,509,394	939,991	278,548	661,443	.43
1940	27,619,565	274,646	72,059	202,587	.11
1939	25,467,539	486,264*	3,850	490,114*	.36*

* Italics indicate loss or deficit.

** After deducting special provision of \$1,500,000 for possible future decline in market

RES COMPANY, INC.

COMPANIES

EARNINGS AND RETAINED EARNINGS

DIVIDENDS PAID		Preferred Amount	Retained Earnings (Earned Surplus)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
Per Share	Common Amount			
\$1.65	\$2,402,442	\$ —	\$31,654,763	\$30.44
1.55	2,248,742	—	30,030,241	29.36
1.25	1,809,999	—	28,362,266	28.23
1.25	1,809,999	—	26,621,712	27.03
1.25	1,836,849	4,375	24,908,220	25.85
1.00	1,470,404	17,500	22,915,344	24.64
1.00	1,471,295	19,240	21,651,863	23.54
1.00	1,481,220	22,040	18,035,395	20.06
1.00	1,481,220	24,701	15,931,526	18.64
1.00	1,481,220	25,676	12,310,722	16.19
1.00	1,481,220	25,676	8,659,080	13.72
.25	370,305	25,676	5,483,216	11.58
.25	370,305	28,451	4,068,296	10.63
.25	368,930	36,176	2,687,111	9.69
.25	361,255	37,133	1,668,102	9.20
.20	290,444	40,187	844,871	8.58
.20	289,612	41,732	74,726	8.07
—	—	42,504	255,373*	7.85
—	—	46,907	415,456*	7.59

value of inventories and other contingencies.

MERCANTILE STORES

AND SUBSIDIARIES

TEN YEAR COMPARISON OF

ASSETS	January 31,			
	1957	1956	1955	1954
Cash and Marketable Securities..	\$ 7,048,251	\$ 7,129,398	\$ 8,928,401	\$ 6,875,318
Receivables, less Reserve.....	13,302,895	10,020,053	11,519,124	10,913,772
Merchandise Inventories	24,794,615	24,115,864	21,342,757	23,015,160
Prepaid Expenses	990,185	886,610	1,213,341	1,086,628
TOTAL CURRENT ASSETS....	<u>\$46,135,946</u>	<u>\$42,151,925</u>	<u>\$43,003,623</u>	<u>\$41,890,878</u>
Fixed Assets (Net)	29,794,822	21,892,498	18,996,955	17,353,654
	<u><u>\$75,930,768</u></u>	<u><u>\$64,044,423</u></u>	<u><u>\$62,000,578</u></u>	<u><u>\$59,244,532</u></u>

LIABILITIES

Current Liabilities	\$17,652,613	\$15,837,947	\$15,787,889	\$14,051,103
Long-Term Debt	13,892,909	5,562,865	4,993,357	5,611,194
Deferred Income	—	—	336,878	440,335
Capital Stock	5,347,188	5,326,105	5,309,330	5,309,330
Surplus Reserve	1,500,000	1,500,000	1,500,000	1,500,000
Surplus	37,538,058	35,817,506	34,073,124	32,332,570
	<u>\$75,930,768</u>	<u>\$64,044,423</u>	<u>\$62,000,578</u>	<u>\$59,244,532</u>
Net Working Capital.....	<u><u>\$28,483,333</u></u>	<u><u>\$26,313,978</u></u>	<u><u>\$27,215,734</u></u>	<u><u>\$27,839,775</u></u>

RES COMPANY, INC.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,

<i>1953</i>	<i>1952</i>	<i>1951</i>	<i>1950</i>	<i>1949</i>	<i>1948</i>
\$ 5,795,896	\$ 6,200,137	\$ 4,787,324	\$ 4,739,075	\$ 6,434,661	\$ 3,349,732
11,040,474	9,549,452	10,087,958	8,977,615	8,534,538	6,264,915
23,574,168	22,796,904	28,500,036	19,284,683	18,028,742	18,617,899
1,184,306	1,329,766	1,362,356	1,312,669	1,233,039	798,447
<u>\$41,594,844</u>	<u>\$39,876,259</u>	<u>\$44,737,674</u>	<u>\$34,314,042</u>	<u>\$34,230,980</u>	<u>\$29,030,993</u>
17,070,625	16,610,429	13,880,381	12,685,167	12,345,179	9,948,169
<u>\$58,665,469</u>	<u>\$56,486,688</u>	<u>\$58,618,055</u>	<u>\$46,999,209</u>	<u>\$46,576,159</u>	<u>\$38,979,162</u>

\$15,046,652	\$14,261,602	\$17,516,920	\$ 9,625,259	\$11,054,879	\$12,790,334
5,638,334	5,526,516	5,530,000	5,355,000	5,675,000	95,000
552,075	440,566	576,612	504,781	395,980	227,532
5,309,330	5,660,163	5,660,163	5,721,140	5,761,140	5,797,940
1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
30,619,078	29,097,841	27,834,360	24,293,029	22,189,160	18,568,356
<u>\$58,665,469</u>	<u>\$56,486,688</u>	<u>\$58,618,055</u>	<u>\$46,999,209</u>	<u>\$46,576,159</u>	<u>\$38,979,162</u>
<u>\$26,548,192</u>	<u>\$25,614,657</u>	<u>\$27,220,754</u>	<u>\$24,688,783</u>	<u>\$23,176,101</u>	<u>\$16,240,659</u>

